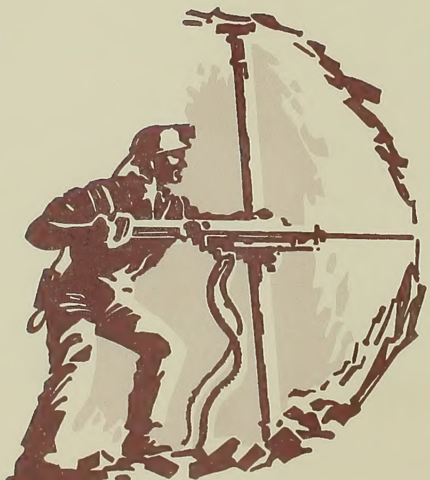
Iso Mines Limited



Annual Report 1976

To the Shareholders:

Iso's most important asset is its holding of 865,306 shares (23%) of Afton Mines Limited, which is developing a copper mine and smelter near Kamloops, British Columbia.

During fiscal 1976 a decision was reached to place the Afton deposit into production. Financing and marketing arrangements were completed and construction began in May, 1976.

The project involves a 7,000 tons per day mining and milling facility and related copper smelter, all being built on the mine site eight miles west of Kamloops. Total capital cost is expected to be $80,000,000.

One of the first items in the construction programme involved relocation of a 2.5 mile section of the Trans Canada Highway, which passed close to the planned open pit. It was also necessary to move natural gas and oil pipelines which were close to the highway. This work has been completed, and the new highway section was opened in October, 1976.

Water will be obtained from Kamloops Lake by way of a 4.5 mile, 24 inch diameter pipeline. The line has now been completed and pumping facilities are being installed.

An interesting feature of the project is that the pipeline has been designed to provide somewhat more water than necessary for the mill and smelter operation. The excess will be available for irrigation around the plant site and will help to improve the soil in this generally arid terrain. Afton is already operating a cattle ranch on land adjacent to the plant site.

Also of environmental interest, over $4,000,000 of the capital cost will be devoted to emission control systems in the smelter, which is expected to be one of the cleanest in the world.

The plant construction involves three main buildings: A shop-warehouse-changehouse complex, the concentrator and the smelter. Structural steel erection has now been completed on each of these, and the cladding has been placed on the shop complex and concentrator. Equipment installation is now underway.

The project is scheduled for completion in the fall of 1977, and it should be possible to maintain this schedule provided there are no delays in final equipment deliveries or work stoppages due to strikes.

Reserves within the planned open pit are 34,000,000 tons grading 1.0% copper with approximately $2.00 per ton in gold and silver values. It is anticipated that additional reserves will eventually be outlined beneath the open pit, but only limited deep drilling has been carried out to date.

Financing arrangements include $75,000,000 from Canadian chartered banks, a $15,000,000 line of credit from two British copper customers, and completion and deficiency guarantees by Iso Mines and Teck Corporation. To the end of December, $43,800,000 had been spent and committed.

Iso has curtailed its outside exploration activities pending completion of the Afton project. The company continues to hold an interest in the Twin Bridges copper prospect in Montana, an interest in copper and molybdenum prospects in Arizona and an 11% share interest in Dumagami Mines Limited, which has a gold prospect in the Val D'Or area of Quebec.

At the fiscal year end Iso had bank loans of $1,336,000 secured by its share holding in Afton Mines Limited.

On behalf of the Board

N.B. Keevil Jr.
President

January 31, 1977

CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 1976

ASSETS

	1976 $	1975 $
Current Assets		
Cash	1,125	1,090
Accounts receivable and prepaid charges	284	218
Marketable securities (note 2)	116,285	274,171
	117,694	275,479
Investments in and advances to associated and other companies (note 3)	10,097,635	9,949,211
Mineral Properties and Deferred Exploration and Administration Expenditures (note 4)	1,277,919	550,366
	11,493,248	10,775,056

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Iso Mines Limited and subsidiaries as at September 30, 1976 and the consolidated statement of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

October 29, 1976

Chartered Accountants

LIABILITIES

	1976 $	1975 $
Current Liabilities		
Bank loan, secured (notes 2 and 3)	1,336,000	1,236,000
Accounts payable	13,081	40,973
	1,349,081	1,276,973

SHAREHOLDERS' EQUITY

Capital Stock (note 5)		
Authorized —		
6,000,000 common shares without par value		
Issued and fully paid —		
4,263,033 common shares	2,384,105	1,634,105
Retained Earnings	7,760,062	7,863,978
	10,144,167	9,498,083
	11,493,248	10,775,056

Signed on behalf of the Board

Director

Director

CONSOLIDATED STATEMENT OF EARNINGS
For the Year Ended September 30, 1976

	1976 $	1975 $
Income		
Dividends	6,250	27,990
Expenses		
General and administrative	121,446	113,188
Loss from Operations	(115,196)	(85,198)
Mineral properties and deferred exploration expenditures written off	(3,177)	(268,744)
Gain on sale of mining claims	—	415,413
Amortization — deferred financing costs	(38,490)	—
	(41,667)	146,669
Earnings (loss) before Extraordinary Items	(156,863)	61,471
Extraordinary Items		
Gain on sale of marketable securities	52,947	4,405,500
Write down of investments	—	(101,432)
	52,947	4,304,068
Net Earnings (loss) for the Year	(103,916)	4,365,539
Earnings (loss) per Share before Extraordinary Items	(0.040)	0.017
Earnings (loss) per Share after Extraordinary Items	(0.027)	1.19

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
For the Year Ended September 30, 1976

	1976 $	1975 $
Balance — Beginning of Year	7,863,978	3,498,439
Net earnings (loss) for the year	(103,916)	4,365,539
Balance — End of Year	7,760,062	7,863,978

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Year Ended September 30, 1976

	1976 $	1975 $
Source of Funds		
Proceeds from issue of shares	750,000	—
Gain on sale of marketable securities	52,947	4,405,500
Proceeds from sale of investments	—	33,906
Proceeds from sale of mining claims	—	1,227,500
	802,947	5,666,906
Use of Funds		
Loss from operations	115,196	85,198
Investments in and advances to associated and other companies	148,424	168,682
Exploration and administration expenditures	769,220	32,468
	1,032,840	286,348
Increase (Decrease) in Working Capital	(229,893)	5,380,558
Working Capital Deficiency — Beginning of Year	1,001,494	6,382,052
Working Capital Deficiency — End of Year	1,231,387	1,001,494

1. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the company's subsidiaries, Iso Explorations Ltd. and Iso Nevada Limited. Inter-company transactions and year-end account balances have been eliminated on consolidation.

The accounts of the U.S. subsidiary, Iso Nevada Limited, have been converted into Canadian dollars as follows:

(a) Deferred Expenditures — at the rates prevailing at the date incurred.
(b) Current Assets and Liabilities — at the rate prevailing at September 30, 1976.
(c) Expenses — at the average rate prevailing throughout the year.

Investments

Interest charges on money borrowed to finance major investment purchases are capitalized against the cost of the investment.

Mineral properties and deferred exploration and administration expenditures

The amounts shown for mineral properties and deferred exploration expenditures represent costs to date less amounts written off and do not necessarily reflect present or future values. These amounts are written off at such time as the project is abandoned. Interest charges on funds borrowed to finance major projects are capitalized against that project.

The deferred financing costs (notes 4 and 9) represent costs to date less amortization provided on a straight-line basis over the period of the financing agreement which is from April 1, 1976 to December 31, 1985.

2. MARKETABLE SECURITIES

Marketable securities are stated at cost (market value — $244,245; 1975 — $399,130). Certain of the marketable securities are pledged as collateral security for the bank loans.

3. INVESTMENTS IN AND ADVANCES TO ASSOCIATED AND OTHER COMPANIES

	September 30, 1976		September 30, 1975	
	Book value $	Market value $	Book value $	Market value $
Quoted shares	9,787,904	5,606,444	9,639,140	4,876,199
Unquoted shares	307,771		307,770	
Advances	1,960		2,301	
	10,097,635		9,949,211	

The investments in associated and other companies are not temporary investments. The total market value of all shares included in investments may not necessarily reflect the present or ultimate value of these holdings which may be more or less than indicated by cost or market quotations.

Certain of the investments are pledged as security for the bank loans.

4. MINERAL PROPERTIES AND DEFERRED EXPLORATION AND ADMINISTRATION EXPENDITURES

Mineral properties and deferred exploration and administration expenditures are carried at cost, less amounts written off, and consist of the following:

	$
Arizona	294,659
Macamic	125
Twin Bridges — Montana	197,181
Copper Canyon	19,143
Spring Valley Flourspar	39,564
Deferred administration expenses	15,737
Deferred financing costs (note 9)	711,510
	1,277,919

5. CAPITAL STOCK

On March 24, 1976 a Certificate of Amendment of Articles was obtained increasing the authorized capital by 1,000,000 common shares without par value.

During the year 600,000 common shares were issued for cash of $750,000.

There are options outstanding to a director on 20,000 common shares of the company's capital stock at a price of $1.97 per share which expire November 4, 1979.

6. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Aggregate direct remuneration paid during the year to directors and senior officers of the company was $7,000 (1975 — $7,000).

7. INCOME TAXES

There are no income taxes payable for the year. The company has accumulated deferred expenditures in the amount of approximately $3,500,000 which is available to reduce taxable income in future years.

The company also has loss carry forwards for income tax purposes of $1,622,000 which expire as follows:

	$
1978	321,000
1979	325,000
1981	976,000

8. ANTI-INFLATION ACT

The company is subject to restraint of profit margins, prices, compensation and dividends under the terms of the Anti-Inflation Act and Regulations.

9. COMMITMENTS AND CONTINGENT LIABILITIES

The company and Teck Corporation Limited have jointly and severally provided a completion guarantee for construction of a mine mill and smelter corporation of Afton Mines Ltd. (N.P.L.).

In addition, they have agreed to provide funds for repayment of certain bank loans to Afton Mines Ltd. (N.P.L.) in the event that the cash flow of the Afton project is insufficient to meet scheduled repayments, up to a maximum of $25,000,000. There are provisions whereby this $25,000,000 commitment reduces as repayments of the bank loan are made.

A $15,000,000 line of credit from Afton's customers may be drawn upon, if necessary, to satisfy the completion and deficiency guarantees. To the extent that this line of credit is utilized, the company's and Teck's obligations are reduced.

The company has paid a fee of $750,000 to Teck as consideration for Teck providing the company's portion of $10,000,000 of collateral to the banks and a provision for additional collateral if more than $5,000,000 of the line of credit from the customers is utilized. This has been disclosed in the financial statements as deferred financing costs.

10. COMPARATIVE FIGURES

Certain of the 1975 figures have been restated for comparative purposes.

DIRECTORS

N.B. Keevil Jr.
W.R. Bergey
R.A. Cranston
J.C. Frantz
G.C. McCartney
A.C. Nixon
J.H. Westell

OFFICERS

N.B. Keevil Jr., *President*
W.R. Bergey, *Vice-President, Exploration*
J.H. Westell, *Vice-President and Treasurer*
W.H. Maedel, *Secretary*
J.D. Munroe, *Assistant Secretary*
D.S. Brown, *Assistant Secretary*
W.J. Baird, *Assistant Treasurer*

HEAD OFFICE

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Toronto, Ontario M5K 1E8

TRANSFER AGENTS AND REGISTRARS

Guaranty Trust Company of Canada

AUDITORS

Coopers & Lybrand

SOLICITORS

Lang, Michener, Cranston, Farquharson & Wright

ANNUAL MEETING

Alberta Room, Royal York Hotel, Toronto, Ontario
Tuesday, March 1, 1977, 2:30 p.m. (Eastern Standard time)

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